



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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February 6, 2024

The Honorable Bryce Edgmon
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol, Room 410
Juneau, AK 99801

The Honorable Neal Foster
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol, Room 511
Juneau, AK 99801

The Honorable DeLena Johnson
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol, Room 505
Juneau, AK 99801

Dear Co-Chairs Edgmon, Foster, and Johnson,

The purpose of this letter is to provide responses to the questions asked of the Department of Revenue (DOR) regarding the Fall 2023 forecast presentation to the House Finance Committee on January 19, 2024. Please see the questions in italics and our response immediately below the questions.

1. *What would the revenue impact be if the corporate income tax were extended to apply to all oil and gas companies including S-Corporations?*

Using the Fall 2023 Revenue Forecast, the below table estimates the additional tax revenue that could be collected if the current corporate income tax were applied to all oil and gas companies. Estimated additional revenue over the next five fiscal years could range from \$120 million in FY 2028 to \$147 million in FY 2025. These estimates were generated by scaling up the current oil

and gas corporate income tax forecast by the ratio of oil and gas projected to be produced by C-Corporation vs other entities statewide. This assumes that the profit structure before tax for C-Corporations and other entities is similar and does not incorporate any company-specific information for the non-C-corporations.

Estimated Revenue Impact of Extending Corporate Income Tax to all Oil and Gas Corporations, Fall 2023 Forecast, \$ millions

FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
\$147	\$143	\$127	\$120	\$121

2. *What are the assumptions underpinning the insurance premium tax forecast, and why is the state forecasting a small increase in revenue for FY 2024 compared to FY 2023?*

To answer this question, we coordinated with the Division of Insurance which administers the insurance premium tax within the Department of Commerce, Community, and Economic Development.

Insurance companies in Alaska pay an insurance premium tax instead of corporate income tax or other taxes under AS 21.09.210. The tax is levied as a percentage of the total insurance premiums for policies in the state and varies by the type of insurance.

Throughout the year, the Alaska Division of Insurance captures information from the insurance industry experts on the trends they are observing in each of the different markets. The Alaska Division of Insurance also reviews leading industry publications to determine what the future of premiums will likely be in Alaska. Nationally, insurance market trends are predicting an increase to premiums for all types of insurance except workers compensation in 2024 and 2025. The Fall 2023 forecast for insurance premium taxes utilized estimates provided by the Division of Insurance in October 2023, and projected an increase to insurance premium taxes of 2% in 2024 and 1% in 2025. Compared to national projections, these are considered to be conservative estimates.

3. *Please provide the total revenue the State of Alaska received from the mining industry by revenue source.*

The table below shows the total estimated revenue the State of Alaska received in FY 2023 from the mining industry by revenue source, as well as the Fall 2023 Forecast FY 2024 and FY 2025.

Total state revenue from mining was \$75.2 million in FY 2023 and is forecast to decline to \$58.6 million in FY 2024 and \$60.2 million in FY 2025. The expected declines are due to lower expected mining license tax driven by lower prices for base metals such as zinc and lead. On the other hand, higher prices for precious metals such as gold and silver are expected to lead to small increases in rents and royalties and corporate income taxes. As with oil prices, minerals prices can be volatile, and these assumptions will be revisited in the Spring 2024 forecast.

Estimated State Revenue from Mining Industry, \$ millions

	<i>History</i>		<i>Forecast</i>
	FY 2023	FY 2024	FY 2025
Unrestricted Revenue			
Mining License Tax	\$52.5	\$31.8	\$29.1
Rents and Royalties	\$1.6	\$1.7	\$1.8
Corporate Income Tax	<u>\$5.8</u>	<u>\$8.5</u>	<u>\$11.5</u>
Total Mining Unrestricted Revenue	\$59.9	\$42.0	\$42.4
Restricted Revenue			
Rents and Royalties	\$15.2	\$16.6	\$17.7
Settlements to CBRF	<u>\$0.2</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total Mining Restricted Revenue	\$15.3	\$16.6	\$17.8
Total State Revenue from Mining	\$75.2	\$58.6	\$60.2

4. What would the revenue impact be of extending tobacco taxes to e-cigarettes?

The revenue impact from taxing electronic cigarettes or e-cigarettes depends on how a tax on e-cigarettes is structured. Decisions would include whether to implement the tax at the wholesale or retail level, tax rates, and exactly what items are taxed vs. not taxed. A variety of approaches have been taken by other states and municipalities, including several municipalities within Alaska.

As one example, the table below shows preliminary estimated revenue impacts for a 25% retail tax on e-cigarettes, effective January 1, 2025.

These estimates were based on a series of assumptions, several of which have a range of uncertainty. Those assumptions start with a 2022 national retail value estimate of \$8.3 billion which is inflated and scaled to Alaska based on population age 21 and over. Then, a price elasticity of demand coefficient of -1.2 is applied to estimate the reduction in use to do the tax (each 1% increase in price due to the tax reduces demand by 1.2%), yielding an Alaska tax base of \$14.6 million in FY 2025. That tax base is estimated to grow by 3.0% annually (2.5% inflation and 0.5% population growth).

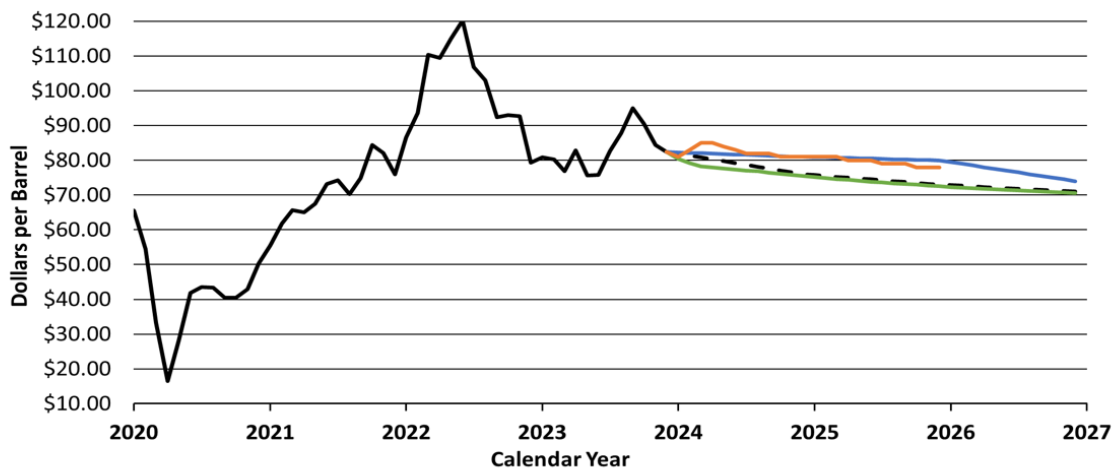
**Estimated Revenue Impact of Extending Tobacco Taxes to E-Cigarettes, Fall 2023
Forecast, \$ millions**

FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
\$1.9	\$3.8	\$3.9	\$4.1	\$4.2

5. Provide an updated version of slide 18 that contains correct dates.

See below for an updated version of slide 18 that contains correct dates. Slide 18 shows the Department of Revenue's Fall 2023 Alaska North Slope price forecast compared to Brent prices from the Energy Information Agency, futures markets, and average analyst forecasts. The slide shown in committee contained the correct information but included an incorrect date in the header.

Petroleum Detail: Nominal Brent Forecasts Comparison as of January 17, 2024

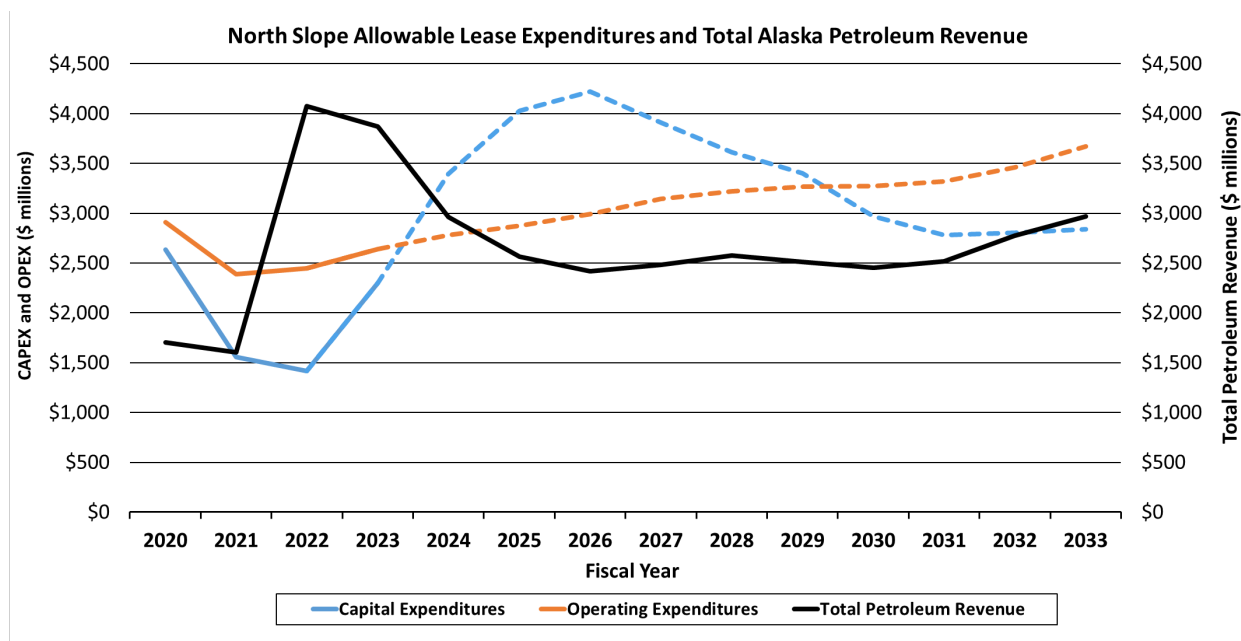


Source: Analyst forecast is the median forecast of 10-38 firms from a Bloomberg survey as of January 17, 2024. Futures prices are from the Chicago Mercantile Exchange (CME) as of January 17, 2024. The U.S. Energy Information Administration (EIA) forecast is from their January 2024 Short-Term Energy Outlook (released January 9, 2024). Chart shows monthly average prices.

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6. Provide an updated version of slide 22 with a line added showing total petroleum revenue.

See below for an updated version of the chart from slide 22. As requested, a line showing total petroleum revenue (historical and Fall 2023 forecast) has been added.



I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Adam Crum
Commissioner